No. 89-1552

Supreme Court, U.S.
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In The

Supreme Court of the United States

October Term, 1989

THE CLAUSEN COMPANY,

Petitioner,

vs.

DYNATRON/BONDO CORPORATION,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Third Circuit

BRIEF FOR RESPONDENT

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BRIEF FOR RESPONDENT

OPINION BELOW

The opinion of the United States Court of Appeals for the Third Circuit in this case has been published in 889 F.2d 459 and 12 U.S.P.Q. 2d 1814. A decision in a related but separate case between the parties has been published in 81 B.R. 285 and the disposition of an appeal in that matter has been noted in 878 F.2d 1443.

STATEMENT OF THE CASE

The Statement of the Case presented by the petitioner, The Clausen Company ("Clausen"), requires clarification as to precisely what aspect of the controversy was before the United States Court of Appeals for the Third Circuit. A more lucid statement of the case appears at pages five through ten of the opinion of the United States Court of Appeals for the Third Circuit, a copy of which is annexed to the Petition for Writ of Certiorari.

The case which is the subject of the Petition for Writ of Certiorari originated in the United States Bankruptcy Court for the District of New Jersey. In May of 1985, Clausen filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code (Title 11 of the United States Code). On June 28, 1985, Dynatron/Bond Corporation* ("Dynatron"), filed a proof of claim in the Chapter 11 proceeding. That proof of claim identified Dynatron's patent, referred to a previous action for patent infringement and identified the settlement agreement between Dynatron and Clausen. The proof of claim stated in relevant part:

* * *

> 6. The Settlement Agreement between Dynatron/Bondo and Clausen stipulates that after January 15, 1977 Clausen shall pay to Dynatron/Bondo a royalty in the amount of $5.00 for each five gallon air operated dispenser which is simliar to the then current Clausen five gallon

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* Dynatron/Bondo Corporation does not have a parent company and its only subsidiary is the Canadian corporation, Bondo Canada, Ltd.

air operator [sic] dispenser which infringes the Dynatron/Bondo patent 3,957,176 which is made, used or sold by or on behalf of Clausen.

7. Upon information and belief, beginning shortly after January 15, 1977 and continuing to the current time, Clausen advertised and offered for sale and sold five gallon air operated dispenser pails which are similar to the five gallon air operated dispenser of Clausen which was the subject of said Civil Action 76-2117, and which infringes U.S. Patent 3,957,176. A copy of catalog number CC10183 of Clausen is attached hereto as Exhibit C. It is noted that the five gallon dispenser pall offered for sale by Clausen is illustrated on page number one of the catalog . . . .

8. . . . In accordance with the settlement agreement executed by Clausen and Dynatron/Bondo, Clausen is obligated to pay to Dynatron/Bondo $5.00 for each five gallon air operated dispenser of the type illustrated and described in said catalog which was made, used or sold by or on behalf of Clausen.

WHEREFORE, Dynatron/Bondo demands as follows:

1. Clausen be required to show proof of the number of five gallon dispenser pails and other dispenser pails of the general type disclosed in Clausen's catalog number CC10183 which were made, used or sold by or on behalf of Clausen from the time beginning January 15, 1977 and continuing to this date.

> 2. That Clausen be required to pay to Dynatron/Bondo an amount equal to $5.00 for each five gallon dispenser pail or other pail that is similar to the dispenser pail illustrated in Clausen catalog CC10183 or that infringes U.S. Patent 3,957,176 and that was made, used or sold by or on behalf of Clausen after January 15, 1977.
>
> * * *

Thus, the relief sought in the proof of claim was an accounting of the number of pails which were made, used or sold in violation of the settlement agreement and compliance with the settlement agreement's provision requiring a payment of $5.00 for each pail sold in violation of the settlement agreement.

Upon the filing of the proof of claim, Dynatron's claim was deemed allowed until a party in interest objects. 11 U.S.C. § 512(a). Thus, Dynatron had done all that was required to preserve its claim.

Dynatron's proof of claim was amended in October of 1985 to refer to Reissue Patent Re 31,534. This reissue patent was applied for in May of 1978. During the reissue proceedings, an issue apparently arose over a feature of another putty dispenser. The inventor of the Dynatron putty dispenser sought to amend claims six through nine of U.S. Patent 3,957,176, to clarify an aspect of the operation of the invention. In support of the reissue, and consistent with accepted practice, the inventor stated that he believed the original patent to be wholly or partially inoperative or invalid by reason of claiming more than he had a right to claim, and that he first became aware of the deficiencies through the Official Action dated January 2, 1980 from the U.S. Patent and Trademark Office. The reissue patent issued July 2, 1985 with original claims one through five unchanged and with claims six

through nine amended. Claims one through five, which are in issue in a related matter which is still before the U.S. District Court, remained in effect continuously from the date of the original patent. 35 U.S.C. § 252. The reissue patent had been upheld by the Federal Circuit in *Dynatron/Bondo Corporation v. Fibre Glass Evercoat Co.*, in an unpublished decision dated October 23, 1987 (disposition noted at 833 F. 2d 1024).

In November of 1986, Clausen's plan for Chapter 11 reorganization was approved.

In February of 1987, Dynatron commenced a related case in the United States District Court for the District of New Jersey (Civil Action No. 87-362) for patent infringement (Count I) and for breach of the settlement agreement (Count II). In March of 1987, Clausen commenced the present adversary proceeding in the United States Bankruptcy Court for the District of New Jersey. After identifying the parties, Clausen's filing for relief under the Bankruptcy Code, and Dynatron's proof of claim and amended proof of claim, Clausen alleged:

> 7. Upon information and belief, no adversary proceeding was ever commenced by defendant [Dynatron] with respect to either the Original Proof of Claim or the Amended Proof of Claim. Plaintiff [Clausen] believes that it has no liability to defendant on account of either the Original Proof of Claim or the Amended Proof of Claim.
>
> * * *
>
> WHEREFORE, plaintiff demands judgment against defendant as follows:
>
> (a) declaring that plaintiff is not liable to

> defendant pursuant to the Proof of Claim and/or Amended Proof of Claim.
>
> * * *

Dynatron answered this Complaint and asserted a counterclaim which alleged Clausen had violated the settlement agreement and Dynatron sought to enjoin Clausen "from producing 5 gallon air operated lug lid dispensers in accordance with the terms of the Settlement Agreement." Dynatron also sought an award of costs and attorneys' fees "for breach of said Settlement Agreement," and "For plaintiff to pay defendant an amount equal to $5.00 times the number of five gallon air operated dispensers made on or behalf of plaintiff, which, when filled with putty, are similar to the five gallon air operated containers produced by or on behalf of plaintiff at the time of the execution of the Settlement Agreement or which infringe said reissue patent 31,934." Except for the reference to the reissue patent, Dynatron's demand tracked the language of the Settlement Agreement.

In the related case before the United States District Court, the count of the complaint regarding the breach of the settlement agreement was referred to the Bankruptcy Court. Upon Clausen's motion for summary judgment, the Bankruptcy Court concluded that the language of the settlement agreement and the repetition thereof in Dynatron's demands constituted patent misuse. The Bankruptcy Court entered summary judgment in favor of Clausen on the count for breach of the settlement agreement in the United States District Court action.

This summary judgment on the second count of the related case was timely appealed to the United States District Court. The United States District Court affirmed the decision of the Bankruptcy Court, and further appeal was timely taken to the United States Court of Appeals for the Federal Circuit. The

Federal Circuit remanded the matter to the United States District Court reasoning that because the first count of the complaint was still pending, the decision on the second count was not a final judgment.

In the present case, Clausen sought summary judgment on the grounds that the decision on the second count in the other case was *res judicata*. The Bankruptcy Court entered summary judgment in favor of Clausen, and Dynatron appealed to the United States District Court of Appeals for the Third Circuit. On November 3, 1989, the Third Circuit issued its decision reversing the judgment.

SUMMARY OF ARGUMENT

A. The United States Court of Appeals for the Third Circuit Properly Applied the Law Regarding Appellate Jurisdiction.

The Third Circuit was clearly aware of the controlling decision of the Supreme Court in *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800, 108 S. Ct. 2166, 100 L. Ed. 2d 811 (1988). Upon a review of the relevant pleadings, the Third Circuit determined that the claims in the present case are for a breach of a settlement agreement and properly concluded that the Third Circuit had jurisdiction over the case.

B. United States Court of Appeals for the Federal Circuit Does Not Have Jurisdiction over the Appeal in this Case Under *Korody-Colyer Corp. v. General Motors Corp.*, 828 F. 2d 1572 (Fed. Cir. 1987) or Under the Other Authorities Cited By Clausen.

Although the Federal Circuit will have jurisdiction over any appeal from the finding of patent misuse in a related case pending in the United States District Court, the Federal Circuit does not and never had jurisdiction over the appeal in this separate case.

C. A Writ of Certiorari Should Not be Granted in this Case with Respect to Whether the Settlement Agreement is Subject to the Rule of *Lear v. Adkins*, 395 U.S. 653 (1969).

The Federal Circuit has not as yet addressed the related case in which Clausen raised its claim of alleged patent misuse arising out of the settlement agreement. The case which is presently the subject of Clausen's petition for a writ of certiorari is based on a determination that the order in the related case is not *res judicata* in this case. A writ of certiorari should not be issued in this case to review issues in another case when the United States Court of Appeals has not yet addressed the issue in the other case.

REASONS FOR DENYING THE WRIT

I.

THE THIRD CIRCUIT PROPERLY FOUND THAT IT HAD JURISDICTION IN THIS CASE.

Exclusive jurisdiction over an appeal from a final decision of a district court lies in the Federal Circuit if the jurisdiction of the district court "was based, in whole or in part, on section 1338" of Title 28. 28 U.S.C. § 1295(a). In turn, Section 1338 of Title 28 confers subject matter jurisdiction over "any civil action arising under any Act of Congress relating to patents . . . " 28 U.S.C. § 1338(a). Jurisdiction under Section 1338 extends "only to those cases in which a well pleaded complaint establishes either federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well pleaded claims." *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800, 809, 108 S. Ct. 2166, 2173, 100 L. Ed. 2d, 811, 825 (1988). A claim supported by alternative theories may not be the basis for Section 1338

jurisdiction unless patent law is essential to each theory. *Id.* 486 U.S. at 810, 108 S. Ct. at 2174, 100 L. Ed. 2d at 826. Clausen does not appear to dispute these settled aspects of the law.

The Third Circuit correctly applied the law to this case. Clausen's indeterminate complaint alleged that Clausen was not liable on Dynatron's proof of claim or amended proof of claim. The Third Circuit found:

> The order appealed from deals solely with the enforceability of the Settlement Agreement. Whether one starts with the proof of claim, with Clausen's adversary complaint, or with Dynatron's counterclaim nothing else ever was in issue.

With such a determination having been made by the Third Circuit, this case does not present issues justifying a writ of certiorari. Nothing appears on the face of Clausen's complaint or on the face of the proof of claims that indicates patent law was essential to each of Clausen's theories of its claim.

II.

THE DECISIONS IN *KORODY-COLYER CORP. V. GENERAL MOTORS CORP.*, 828 F.2d 1572 (FED. CIR. 1987) AND *TECHNICON INSTRUMENTS CORP. V. ALPKEM CORP.*, 866 F.2d 417 (FED. CIR. 1989) DO NOT SUPPORT CLAUSEN'S ASSERTIONS.

Clausen contends that the decisions in *Korody-Colyer Corp. v. General Motors Corp.*, 828 F. 2d 1572 (Fed. Cir. 1987) and *Technicon Instruments Corp. v. Alpkem Corp.*, 866 F.2d 417 (Fed. Cir. 1989) support Clausen's claims that the appeal in this case should have been heard by the Federal Circuit. Clausen states

that these two cases "show striking similarity to the present situation."

These two cases do not support Clausen's contentions. In both *Korody-Colyer Corp. supra*, and *Technicon Instruments Corp., supra*, the plaintiffs clearly pleaded claims arising under the patent jurisdiction of Section 1338 of Title 28. The plaintiffs also pleaded other claims not arising under the patent laws in the same case. Both decisions stand for the proposition that when there is Section 1338 patent jurisdiction over part of the case, even the non-patent claims will be heard on appeal by the Federal Court.

In the present case, the Third Circuit has correctly held that this case is a breach of contract action and therefore jurisdiction does not arise under Section 1338. Because Section 1338 jurisdiction never existed in this case, the cases cited by Clausen are inapposite. *Korody-Colyer Corp., supra,* and *Technicon Instruments Corp., supra* do not extend so far as to hold that an appeal in a case such as this one must be heard by the Federal Circuit because a separate but related case between the parties would be heard by that court. Indeed, the theory of *Korody-Colyer Corp., supra,* and *Technicon Instruments Corp., supra*, is that the Federal Circuit's jurisdiction attaches to a specific case rather than a specific claim. Clausen's argument in this matter is contrary to the theory of those two decisions because the essence of Clausen's argument must be that Federal Circuit jurisdiction is not over a specific case but extends to multiple cases involving the same parties. Such a claim is not support by the authorities cited by Clausen.

III.

A WRIT OF CERTIORARI SHOULD NOT BE GRANTED TO REVIEW A DETERMINATION MADE IN ANOTHER CASE, PARTICULARLY WHERE THE COURT OF APPEALS HAS NOT ADDRESSED THE ISSUE IN THAT CASE.

The finding of patent misuse occurred in the case which is still before the United States District Court. Similarly, any determination that *Lear v. Adkins*, 395 U.S. 653, 89 S. Ct. 1902, 23 L. Ed. 2d 610 (1969) allows Clausen to contest the settlement agreement occurred in the case which is still before the United States District Court. Although that matter was sought to be appealed to the Federal Circuit, it was remanded to the United States District Court because of the absence of a final judgment. Clausen did not at that time petition for a writ of certiorari nor did it seek any interlocutory review in that case. Clausen's petition for a writ of certiorari regarding issues in a case other than the present one is improper. A writ of certiorari may only be granted in cases in the Courts of Appeals, 28 U.S.C. § 1254, and the case in which the issues were addressed is no longer before the Court of Appeals. In addition, Clausen did not petition for a writ of certiorari in that case within the time required by 28 U.S.C. § 2101(c).

The policy underlying *Lear v. Adkins*, 395 U.S. 653, 89 S. Ct. 192 23 L. Ed. 2d 610 (1969) is to further the public interest by allowing challenges to assertedly invalid patents to be made by licensees who would otherwise be estopped by the terms of their license. *Lear v. Adkins, supra*, addressed the concern that a patent might never be challenged because the persons with the incentive to make the challenge might be estopped by their licenses. The policy of allowing an action challenging a patent despite what might otherwise be an estoppel is not significantly advanced where

the action creating the estoppel arises from litigation in which the invalldity of the patent could have been fully challenged.

The Federal Circuit has held that *Lear v. Adkins, supra*, does not extend to settlement agreements because of the countervailing policy of encouraging settlement and finality of litigation. *Hemstreet v. Speigel Inc.*, 851 F.2d 348 (Fed. Cir. 1988). Clausen also refers to other cases of similar import, but claims "the facts of the present case are far different." Inasmuch as the basis for the holdings in those cases is derived from policies of promoting settlements and finality in litigation, the facts in the present matter are not different in any material way. But even if the facts in this case are different from *Hemstreet v. Speigel, Inc., supra*, the Court of Appeals should have an opportunity to review the facts and apply the law thereto.

Finally, Clausen identifies one decision, *Warner-Jenkinson Co. v. Allied Chemical Corp.*, 567 F.2d 184 (2nd Cir. 1977), which it asserts is in conflict with *Hemstreet v. Speigel Inc., supra. Warner-Jenkinson Co. v. Allied Chemical Corp., supra*, also recognized that there may be appropriate circumstances where a party would be estopped by a prior settlement of litigation. That case does not present such a split among the Circuits that, in llght of the subsequent exclusive vesting of appellate jurisdiction in the Federal Circuit in cases arising under the patent laws, the Supreme Court should engage in the unprecedented act of granting a writ of certiorari in this case to address issues in a separate case which is still pending before the district court. *Warner-Jenkinson Co. v. Allied Chemical Corp., supra*, is also factually distinguishable from the disputes between Clausen and Dynatron because in *Warner-Jenkinson Co.* the settlement included a license to practice the invention whereas the settlement agreement between Clausen and Dynatron provides that the "royalty" for the violation of the settlement agreement "is not a license grant to Clausen . . . "

IV.

ISSUES NOT RAISED IN THE COURT BELOW SHOULD NOT SUPPORT THE GRANTING OF A WRIT OF CERTIORARI.

Clausen now purports to argue that the settlement agreement's damages provision is pre-empted by 35 U.S.C. § 284. This argument was not briefed below and should be deemed waived.

CONCLUSION

For the reasons presented here, and particularly because the United States Court of Appeals for the Third Circuit correctly found that this case is over the enforcement of a settlement agreement and there is no basis for the Court of Appeals for the Federal Circuit to have had jurisdiction over the appeal in this case, it is respectfully urged that the Petition for Certiorari be denied.

Respectfully submitted,

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